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SUBJECT: SCENESETTER FOR CODEL MEEKS - AUG 7-9

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SUMMARY

¶1. (SBU) Summary: Your visit on August 7-9 comes at a time of strong and growing engagement between the U.S. and Uruguay's left-leaning Frente Amplio (FA) coalition government, which won elections for the first time at the end of 2004. President Vazquez steers a moderate course which includes active trade discussions with the USG. As Uruguayans look ahead to the 2009 Presidential and legislative elections, we expect the GOU to seek to ensure its legacy while simultaneously shore up its political base. During your visit, you will meet with Ambassador Frank Baxter and key Country Team members at the Embassy, as well as have meetings with FM Gonzalo Fernandez and House and Senate leadership. End Summary.

POLITICAL SITUATION

¶2. (U) Uruguay is a stable democratic nation of 3.3 million people, almost half of them residing in its capital, Montevideo. Once known as "the Switzerland of South America," it was one of Latin America's wealthiest and most egalitarian countries. A four-year recession, which ended in 2003, cut personal income nearly in half and lowered Uruguay's historically excellent socio-economic indicators. Uruguay's economy has been recovering well over the past three years, with GDP growth of 7 percent in 2007, in large part thanks to continued orthodox economic policies. Today, GDP per capita is approaching \$7,000, and the GOU repaid its entire IMF debt early in the past year; however, job creation is not keeping up with expectations and many young people emigrate to seek their fortunes abroad. Most observers believe that Uruguay seeks to emulate Chile's economic model. Vazquez and Bachelet, both physicians, enjoy a close relationship and common views on economic and social goals and the means to achieve them.

¶3. (SBU) Despite the turn to the left with the FA's first ever victory in October 2004, President Vazquez steers a moderate course which includes active trade discussions with the USG. Until its rise from opposition, the FA rallied its followers with considerable anti-U.S. rhetoric, and both the USG and the FA were unsure how the relationship would proceed when the FA came to power. Hard-left segments of the coalition remain virulently anti-U.S., but the Vasquez government has been open to cooperation with the U.S., especially on issues of security and trade.

¶4. (SBU) With national elections in October 2009, the Vasquez administration is coming into the home stretch. The President has successfully completed much of the programs he set out to, due in large part to his own personal popularity and the Frente Amplio's majority in the Congress. He is determined to ensure his legacy as well as position his party for the 2009 elections. A March 2008 cabinet shake up eased out ideologues, put in technocrats, and put a new emphasis on foreign policy. Vasquez' program has also cemented social and labor policies, as well as sound macroeconomic policies.

Relations with the U.S. are cordial and productive, but election-year politics are likely to limit the profile of our cooperation over the next year.

15. (SBU) Many Uruguayans were traumatized by the 1973-85 period of military dictatorship, when security forces committed serious human rights violations in their campaign against violent insurgents and their sympathizers. Some people blame the U.S. for indirectly supporting the region's military governments during the Cold War. Slick propaganda and declassified U.S. documents from the period are frequently touted by our detractors as "proof" of our involvement. The complex history of the dictatorship created heroes and villains for both the left and right. Some of the persons involved -- including former Tupamaro guerrillas -- are still active in politics today. The real and imagined lessons from the dictatorship period continue to haunt modern politics, including the Uruguayans' perceptions of the U.S., especially where the Global War on Terrorism, Iraq, Afghanistan and Guantanamo are concerned.

----- 2009 Presidential Candidates -----

16. (SBU) The candidates for the upcoming elections are already emerging for the June 2009 primaries. The following candidate list is still in flux and in some cases candidates have not yet officially declared their intent to run for the presidency.

--Frente Amplio

-Economy and Finance Minister Danilo Astori is known for his prudent economic policies, including negotiating a three-year agreement with the IMF in record time. He has been a leading proponent of deepening economic ties with the U.S. He is a pragmatic leftist but is generally not considered a charismatic leader.

-Senator Jose Mujica is the leader of the Movimiento de Participacion Popular (MPP, Popular Participation Movement), a far left faction, and former guerrilla member. He defines himself as a "social fighter." His charisma and unpretentious, straight-forward message make him popular and a strong candidate within his party, but not necessarily in the general elections.

--The National Party

-Senator Jorge Larranaga is the former mayor of one of the most important provinces, Paysandu. He represents the center/left movement which emphasizes a strong state. Larranaga is a young, hard working, strong leader who will try to attract National Party votes which fled to the FA in 2004 as well as disenchanted FA supporters.

-Luis Alberto Lacalle Herrera is a lawyer, rancher, former President of the Republic (1990-95), former Congressman (1972-73), and Senator (1984-89). His faction is considered the right/liberal-wing faction of the Party, but employs a centrist message.

--The Colorado Party

-Pedro Bordaberry is the current frontrunner and son of former President of the Republic Juan Maria Bordaberry (1972-77). He is regarded as a dynamic, hard working and successful leader.

----- The Economy, Trade and Investment -----

17. (SBU) Uruguay is a major agricultural producer relative to its size. Agriculture and agro-industry account for 23% of GDP and over 75% of total exports. Major exports are meat (over \$1 billion in 2006 and \$885 million in 2007), long-grain rice, dairy products, wool and soybeans. Forestry has surged over the last decade, due to favorable investment conditions and an ideal climate, where eucalyptus grows almost twice as fast as in the U.S. Uruguay does not import agricultural products but does import processed foodstuff. Uruguay applies a 6.6% average tariff on imported agricultural goods and does not impose any kind of import quota. There are no subsidies to agricultural production or exports. Given the importance of this sector for the economy, Uruguay has been active in bilateral and multilateral fora to push for trade liberalization, and U.S. agricultural subsidies are a hot topic. The GOU's trade policy on agriculture has generally been in line with Mercosur's policies, and Uruguay is a member of the G-20 group

of countries calling for the elimination of agricultural subsidies. Uruguay was constructive in the latest Doha agricultural trade talks.

¶8. (U) Economy Minister Astori has pursued orthodox macro-economic policies to control inflation (6.4% in 2006) and promote growth and investment. This has resulted in sustained strong growth over the past couple of years, maintaining a 7% growth rate over the past two years. The GOU has also paid off its debt to the IMF ahead of schedule and has regularly issued bonds at favorable terms in the international financial markets, lowering its debt service costs. The debt to GDP ratio was down to 67% at the end of 2007, from over 101% in 2004. Unemployment is now in the single digits for the first time in 6 years. The country risk stood at 277 points as of late July. Uruguay is now better positioned to handle external shocks, but challenges remain with the weakened dollar, political volatility in Argentina, and rising oil prices.

¶9. (SBU) In 2006, the GOU considered initiating free trade discussions with the U.S. In the end the two countries decided to start dialogue within a Trade and Investment Framework Agreement (TIFA), which was signed in January 2007. Working groups are in constant communication under TIFA and their work has already yielded concrete results, especially regarding sanitary and phytosanitary issues. The opening of the \$180 million blueberry market to Uruguay was negotiated under the TIFA and the agriculture group is currently working on certifying de-boned lamb. The GOU and USG are finalizing three new agreements on environment, e-commerce and trade facilitation, which may be signed later this year. Additionally, the USG and the GOU signed a Science and Technology (S&T) cooperation agreement in April. Uruguay's current level of development, education, and infrastructure present an excellent opportunity for cooperation with the USG on S&T issues. The agreement strengthens the bilateral relationship in the spirit of deepening economic ties between the two nations.

¶10. (U) Tax system reform and instituting a personal income tax were central campaign themes for the FA. A comprehensive tax reform took effect in July 2007. The reform simplified the tax system by eliminating some taxes and consolidating others, cut the VAT from a general rate of 23% to 22% and cut corporate income tax from 30% to 25%. The reform also instated an income tax on all incomes generated in Uruguay. Incomes from capital gains are taxed with a flat 10% rate, and other income, including pensions, are taxed with progressive rates ranging from 10% to 25%. Even with the reform Uruguay's tax system will continue to rely heavily on the VAT. The National and Colorado opposition parties are very critical of the income tax and argue that it imposes too much burden on the middle class.

Foreign Policy

¶12. (SBU) The March 1, 2008 replacement of anti-American Foreign Minister Gargano with the President's close advisor Gonzalo Fernandez has strengthened opportunities for improved U.S.-Uruguayan relations. Uruguay is also working to reestablish its traditional role in international institutions. It played a moderating role in the Colombia-Ecuador-Venezuela dispute, but has not condemned the FARC to date. Uruguay is the largest contributor to peacekeeping missions in the world, on a per capita basis, and currently has substantial deployments in Haiti and the Congo. Uruguay is seeking to expand economic ties outside of Mercosur to the rest of South America and beyond, in part to reduce its reliance on sometimes volatile neighbors. Chilean President Michelle Bachelet's July visit demonstrated the countries' close relations and the desire to strengthen partnerships.

¶13. (SBU) Uruguay receives assistance from Venezuela in the form of subsidized oil, but chooses to stay relatively quiet on Venezuelan issues; even when in disagreement with Venezuelan policy, the GOU tends to keep a low profile. President Vasquez visited Cuba in June. Cuba sends many doctors to work in Uruguayan hospitals, a fact praised by supporters of the Castro regime but controversial to others as issues such as medical accreditation and safety have been raised. Iran maintains an active commercial section at its embassy, with Uruguay exporting a significant amount of high-quality rice to Iran.

¶14. (SBU) Relations with Argentina (and by extension Mercosur) have been frosty, mainly as a result of a two-year dispute with Argentina over a paper pulp mill on the Uruguayan side of the Uruguay River. The USD 1.2 billion mill, owned by Finnish Botnia, employs 2,500 persons at the plant or in related industries and significantly boosts Uruguayan GDP. The plant began production in November 2007 and boasts the highest level of pulp production in the world and the latest environmental protection technology. Argentina sued Uruguay in the International Court of Justice (ICJ) in 2006 (a verdict is expected around the end of 2008) and Argentine protesters have blockaded bridges between the two countries for more than two-years.

The GOA and the protesters claim that the mill environmentally damages the Uruguay River which borders both countries; Uruguay and Botnia are confident the court will rule otherwise.

VULNERABLE GROUPS

¶15. (U) A 2007 National Bureau of Statistics study states that Afro-Uruguayans comprise 9.1 percent of the population (approximately 164,000) and indigenous descendents constitute another 2.9 percent. The report concludes that 50 percent of Afro-Uruguayans are poor and suffer discrimination.

¶16. (U) Founded in 1988, Mundo Afro (MA) joined the Network of Afro American organizations in 1994. It has representatives in the Ministries of Social Development, Labor and Social Security, Public Health, Education and Culture, the State Pension/Retirement Bank and the Montevideo municipality. At a regional level MA maintains contacts with NGOs in Bolivia, Peru, Brazil, Paraguay, and Ecuador. MA and the US Embassy have had a longtime institutional relationship programming events on discrimination and racial issues.

¶17. (U) Afro-Uruguayans are practically unrepresented in the legislature (only one Frente Amplio Party Congressman, Edgardo Ortuno of the moderate Vertiente Artiguista faction) or the cabinet, the bureaucratic and academic sectors, or the mid and upper echelons of private-sector firms. The Frente Amplio Administration opened an office under the Ministry of Social Development to deal with women issues of the Afro-Uruguayan minority.

¶18. (U) Afro-Uruguayan and indigenous NGOs, as well as Jewish organizations, are represented at the Honorary Commission Against Racism, Xenophobia and all forms of Discrimination presided by the Bureau of Human Rights under the Ministry of Education and Culture. The Commission was created by law on September 6, 2004, to develop a national plan and propose specific measures to prevent and combat racism, xenophobia and discrimination in Uruguay.

YOUR MEETINGS WITH URUGUAYANS

¶19. (SBU) You will meet with the Foreign Minister, Gonzalo Fernandez on August 7. Formerly President Vazquez's closest advisor, Fernandez has an insider's perspective and remains the President's closest advisor. Under his leadership, the Foreign Ministry has opened up to U.S. dialogue and partnership.

¶20. (SBU) You are also scheduled to meet with leadership from the upper and lower houses, including: Vice President and President of the Senate Rodolfo Nin Novoa, President of the Uruguayan Congress Alberto Perdomo, and members of the House and Senate Foreign Affairs committees. Perdomo, who is in the middle of his one year tenure as Speaker, is interested in a continuing relationship with the U.S. House of Representatives and in particular will welcome information on the way the U.S. Congress conducts government oversight. [01]

BAXTER

[01]Actual meetings will be confirmed before we send the cable.